



by ADAM  
GROSSMAN, CFA

## THE WRITING TEAM

ADAM GROSSMAN, CFA  
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA  
Managing Partner |  
Chief Investment Strategist

KEVIN NICHOLSON, CFA  
Global Fixed Income CIO | Partner

ROD SMYTH  
Vice Chairman

DAN ZOLET, CFA  
Associate Portfolio Manager

## SUMMARY

- US large-cap earnings results remain strong, and small-caps improved for the second quarter in a row.
- Japan improved from last quarter; Europe's improvement was less consistent.
- We saw little evidence of tariff impact, strong evidence of solid AI earnings, and some signs of value stock improvement.

Source: LSEG Datastream, RiverFront. Data weekly as of Nov 28, 2025. Chart right shown for illustrative purposes only. Past performance is no indication of future results.

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## Q3 Earnings Recap: Steady As She Goes

### US Still Strongest; Europe and Japan are Catching Up

With over 90% of S&P companies now having reported for the third quarter, we feel we have enough data to perform our quarterly earnings season 'checkup'. In order to complete this checkup, we will use our three 'earnings principles':

1. **Earnings/Revenue Surprises:** Were corporate results out of alignment with market expectations?
2. **Analyst Adjustments:** What was the direction and magnitude of analysts' estimate revisions after forward guidance was issued?
3. **Earnings/Revenue Trends:** What is the long-term earnings trend after the announcement?

### We are watching this earnings season for three major themes:

1. We want to be aware of any complications from tariffs that might lead to breakdowns in earnings.
2. We want to be attuned to any slowdowns in AI-themed sectors – our [base case](#) has been that these companies can earn their way into their valuations.
3. We want to look for any areas where 'value'-oriented companies are beginning to demonstrate strong earnings growth – we believe this is a distinct possibility in a number of markets and view it as a potential sign of market health.

Looking closer at US large-caps, starting with the first principle, we are encouraged that so far tariffs have not put a dent in US earnings relative to expectations; the S&P 500's **earnings were +6.3% higher** than anticipated

### Chart 1: No Signs of Tariff Impact in US Earnings

IBES S&P 500 12-mo fwd EPS estimate, Weighted Average, log scale, in USD



(source: Bloomberg), with every sector but Communication Services beating expectations. Communication services is a bit of an outlier, as Meta and Netflix both recorded large one-time tax hits that are not directly attributable to core operations, in our view. Setting aside this outlier, these results appear to corroborate our positive view on earnings. More specifically, we believe that the combination of stable interest rates and sustained inflation levels between 2-3% percent have created an environment whereby business models with high fixed costs but low variable ones (a feature called ‘operating leverage’) can thrive, despite tariffs.

From a revenue perspective, we were also encouraged by **sales coming in +2.1% higher than analysts expected**, with all 11 sectors showing positive revenue surprises. This also allays our fears that tariff impact might be worse than the analyst community feared, and points to growth that is better than analysts expected.

Moving to our second principle, **future earnings expectations for the S&P 500 over the next 12 months have ticked upward** in response to positive earnings surprises (see Chart 1, above). Similar to our take on sales surprises, analysts have continued to see a way for US large-cap to continue growing earnings.

Finally, the annualized **trend of US large-cap earnings continues to be a positive +13.1% year over year** overall, supported by revenue growth of +8.3%. While all 11 sectors showed positive revenue growth, Communication Services and Energy were the only sectors to have negative earnings growth. As we mentioned earlier in the piece, the Communications Services miss was primarily tax-related and weak energy earnings are largely a function of declining energy prices. So, if we are looking for tariff warning signs in this data, there do not seem to be many that can be fully attributed to them. We also see strong top and bottom-line growth in Financials and Industrials, two sectors we consider prime candidates for the “value rotation”.

Most importantly to the AI theme, it appears that Technology - with +29% annualized earnings growth compared to a 23% price return over the year to date - is fully justifying its’ strong performance with exceptional earnings growth through the period. We view continued earnings growth as necessary to support further returns, given elevated valuations and risks around AI Investing busts (as discussed in our [last Weekly View](#)).

### Small-Cap Improving but Still Less Consistent Than Large-Cap; International Improving as Well

	US large-cap	US small-cap	Europe	Japan
Revenue Surprise	Positive (11/11)	Positive (8/11)	Flat (+) (7/11)	Positive (+) (7/11)
Earnings Surprise	Positive (10/11)	Positive (10/11)	Positive (6/11)	Positive (+) (8/11)
Estimates for 2025 / 2026	Positive	Positive	Positive	Positive (+)
Revenue Trend Growth	Positive (11/11)	Positive (7/11)	Flat (+) (5/11)	Positive (+) (8/11)
Earnings Trend Growth	Positive (9/11)	Positive (5/11)	Positive (5/11)	Positive (+) (11/11)

**Source : Bloomberg Estimates: -/+ indicates change from prior quarter**

*Source: Bloomberg, RiverFront. Data quarterly as of November 23, 2025. Chart shown for illustrative purposes only. Past performance is no indication of future results. You cannot invest directly in an index. Not indicative of RiverFront portfolio performance. In the table above, US Large Cap is represented by the S&P 500, US Small Cap is represented by the S&P 600, Europe is represented by Euro Stoxx 50, and Japan is represented by Tokyo Price Index. See Disclosures section for definitions.*

The table above summarizes RiverFront’s view of the earnings picture for four different market segments: US large-cap, small-cap, Europe and Japan. Relative to US large-caps - which have a clear growth/technology bias - US small-caps, Europe and Japan all have a greater weighting in more value-oriented sectors. Again, due to operating leverage, we believe these themes should begin to respond positively to a macro environment of falling short rates and modest (2-3%) US inflation.

As such, while we look for continued strength in larger US companies, in these other markets we instead are looking for improvement. In the table above, the “+” and “-” signs indicate our view of how things have changed since the [previous quarter](#). Note we added a number for each surprise / growth that indicates how many of the sectors are positive out of the 11 GICS sectors. We did this to show how consistent / pervasive the general trend is; note that the estimates are still done at the market level, so we just get one value.

## Beyond Large Cap: Other 'Value-led' market segments mixed... US Small-Caps and Japan doing better than Europe

- **US Small-Cap:** Small-cap earnings continue to improve, although the sector-by-sector revenue and earnings story is more mixed versus large-caps. Taking this improvement in tandem with the potential for interest rate cuts, we believe there is a strong case for small-cap as an investment, although the inconsistency across sectors means that selection will be critical. Some potentially attractive sectors in our view include technology, industrials and healthcare, given the strengths of their earnings. We view small-cap earnings trends as showing similar resilience to tariffs, strength in AI themes, and budding earnings pickup in 'value' sectors as their larger-cap brethren.
- **Europe:** Looking through our framework, European equities have improved since the last quarter. However, results are much more inconsistent across sectors and generally lower than US large-cap, as epitomized by 3% earnings surprise vs 6.7% in the US. We see continued strength in Euro financials but mixed results in defensives, cyclicals and growth sectors. We will watch for improvement here as the "re-armament" plans are implemented across the continent.
- **Japan:** Earnings bounced back strongly in Japan after weak results last quarter. This had the effect of flipping all five of our indicators positive from flat or negative. What we have not seen out of Japanese markets over the past year is consistency, so we want to see a little stronger trend in these numbers before drawing any concrete conclusions.

## Conclusion: US Large-Cap Stocks Still Leading; Want to See More Consistency Elsewhere + AI Trade to Stay in Place

This was a strong quarter for US company earnings - both large and small - amidst a myriad of tariff and macro challenges. We have described corporate America as ['exceptional'](#) and these numbers support that view, in our opinion. Europe and Japan also improved, although not as consistently as the US. We continue to see little evidence of tariffs causing large scale damage to earnings - we believe this is because the overall strength and resilience of the economy have overshadowed any disruptions that might have occurred. We also see very strong earnings out of AI-related segments, and some evidence of value-oriented sectors earnings beginning to accelerate.

Our portfolios are positioned consistently with the takeaways of this analysis, in our view. We are overweight US large cap stocks across our balanced portfolios, driven by the S&P 500's demonstrated earnings strength. We have also made selective investments in Europe and Japan, with distinct tilts towards Value and Financials. We will also be watching for shifts in earnings trajectory from tariffs, the AI investment theme, or potentially a value rotation if lower interest rates set in. We will be monitoring corporate surveys, business confidence, earnings guidance and analyst revisions to assess whether the risk of recession has increased.

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*Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.*

*Artificial intelligence, or AI, refers to the simulation of human intelligence by software-coded heuristics. Nowadays this code is prevalent in everything from cloudbased, enterprise applications to consumer apps and even embedded firmware.*

*Index Definitions:*

*Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.*

*S&P 600 is a benchmark index for small-cap stocks. To be listed on the S&P 600, stocks must have a market cap of \$850 million to \$3.6 billion, preventing overlap with S&P's larger cap indices.*

*EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. The index is composed of 50 stocks from 11 countries in the Eurozone. EURO STOXX 50 represents Eurozone blue-chip companies considered as leaders in their respective sectors.*

*The Tokyo Price Index, known as TOPIX, is a Japanese stock market index calculated and published by the Tokyo Stock Exchange (TSE). TOPIX tracks domestic companies in the exchange's first section, which represents Japan's largest firms by market capitalization.*

*Definitions:*

*Operating leverage is a financial ratio that, using a company's fixed costs relative to its variable costs, measures the degree to which a firm can increase operating income by increasing revenue.*

*A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth indicate a recession. However, more complex formulas are also used to determine recessions.*

*Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.*

*The energy sector is a category of stocks that relate to producing or supplying energy. The energy sector or industry includes companies involved in the exploration and development of oil or gas reserves, oil and gas drilling, and refining. The energy industry also includes integrated power utility companies such as renewable energy and coal.*

*US Equities include stocks listed in the United States. Stocks represent partial ownership of a corporation. If the corporation does well, its value can increase, and investors can share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Small/mid-cap equities, MLPs, REITS and alternatives equities are types of US Equities and assume further risks described below.*

*The Institutional Brokers' Estimate System (IBES) is a database used by brokers and active investors to access the estimates made by stock analysts regarding the future earnings of publicly traded American companies.*

*Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.*

*US large cap equities include equities of companies with a market capitalization of over \$10 billion. Although large cap equities are generally considered to be safer securities, large cap equities are still subject to the risks associated with stocks.*

*Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.*

*When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios.*

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